

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)**

**YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Oneida Township School District #3  
Grand Ledge, Michigan

November 29, 2006

We have audited the accompanying financial statements of the governmental activities and the major fund of Oneida Township School District #3 (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Oneida Township School District #3's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Oneida Township School District #3 as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education  
Oneida Township School District #3  
Grand Ledge, Michigan

November 29, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of Oneida Township School District #3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maner, Costinison & Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Oneida School District's ("Oneida" or the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006.

### FINANCIAL HIGHLIGHTS

- The District's financial status improved by approximately \$10,000 due to the increase in per pupil allocation as well as decrease in capital outlay and supplies in current year.
- Revenues increased by approximately \$20,000 due to an increase in the per pupil allocation and an increase in interest income over the previous year. Expenses decreased over all from the previous year. This resulted in an overall improvement in the fund balance by \$10,149.
- The district worked hard to control expenses despite increasing utility and maintenance costs. A decrease in volunteers available for some maintenance items meant that purchased services had to be sought.
- Enrollment was 19 students as of September and February 2005.

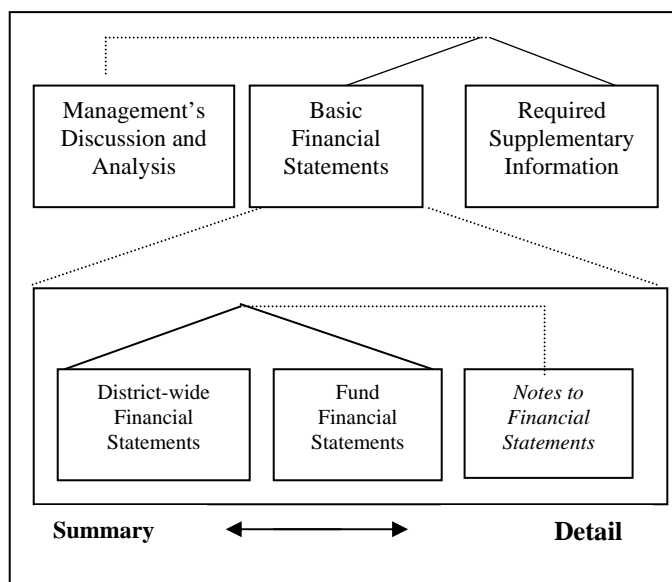
### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Organization of Oneida School District's**  
**Annual Financial Report**



<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>		
	District-wide Statements	Fund Financial Statements
		Governmental Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.
Required financial statements	<ul style="list-style-type: none"> <li>* Statement of net assets</li> <li>* Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>* Balance sheet</li> <li>* Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - All of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has one kind of fund:

- Governmental funds - All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets - The District's financial position increased due to higher student counts.

<b>Table A-3</b>		
<b>Oneida School District's Net Assets</b>		
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 294,420	\$ 292,873
Capital assets	<u>72,454</u>	<u>73,670</u>
Total assets	<u>366,874</u>	<u>366,543</u>
Non-current liabilities	11,754	11,698
Other liabilities	<u>          </u>	<u>9,874</u>
Total liabilities	<u>11,754</u>	<u>21,572</u>
Net assets		
Invested in capital assets	72,454	73,670
Unrestricted	<u>282,666</u>	<u>271,301</u>
Total net assets	<u>\$ 355,120</u>	<u>\$ 344,971</u>

<b>Table A-4</b>		
<b>Changes in Oneida School District's Net Assets</b>		
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,500	\$ 1,500
General revenues:		
Property taxes	69,751	70,079
State aid - unrestricted	80,521	63,047
Other, primarily investment earnings	<u>9,498</u>	<u>3,624</u>
Total revenues	<u>161,270</u>	<u>138,250</u>
Expenses:		
Instruction	116,643	124,740
Support services	30,629	28,875
Unallocated depreciation	<u>3,849</u>	<u>2,368</u>
Total expenses	<u>151,121</u>	<u>155,983</u>
Change in net assets	<u>\$ 10,149</u>	<u>\$ (17,733)</u>

## District Governmental Activities

Overall, the district feels very positive about our mission to make every decision one that directly impacts or benefits students. The reason we have been able to continue achieve these goals are due to the following:

<b>Table A-6</b>		
<b>Oneida School District's Long-term debt</b>		
	<u>2006</u>	<u>2005</u>
Compensated absences	<u>\$ 11,754</u>	<u>\$ 11,698</u>

- The availability of serving as a school of choice allows for additional students as the local population allows.
- The commitment of the School Board towards fiscal responsibility and the willingness of the parents, students, teachers, and the community to contribute to the well being of the school.
- Whenever possible, parents are asked to participate in school activities such as helping with field trips, events, and holidays. Not only does this save money, but it creates “buy in” to the education of their youngsters.
- Maintenance on the school and grounds has been relatively low due to the commitment of those who are involved. Many times contractors are willing to perform at a discounted rate in order to assist the school. This year, that dynamic changed slightly as volunteer time decreased.

## FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The District maintains a good financial base.

### General Fund Budgetary Highlights

We continued to try and give salary increases to teaching staff where possible in the form of incentive payments upon completion of goals and objectives. The teacher and the board of directors agree upon goals for the year and incentive payments are made upon the boards review at the end of the year and evaluations of accomplishments. This has been a successful program and we feel that the costs are worth the benefits.

A teacher’s meeting is held at the beginning of the year with the school board during which teaching staff and the board brainstorm to come up with a year long plan of programs, field trips, etc. which tie in with the subjects that are being taught. At that time, the staff presents a “wish list” to the school board for materials and resources to implement those programs. We are very proud of the results of this effort.

## CAPITAL ASSET ADMINISTRATION

<b>Table A-5</b> <b>Oneida Township School District #3's Capital Assets</b>				
	<b>2006</b>			<b>Net book value 2005</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	
Land	\$ 20	\$	\$ 20	\$ 20
Land improvements	6,471	1,055	5,416	5,804
Buildings and improvements	41,976	3,897	38,079	38,776
Equipment and furniture	34,381	5,442	28,939	29,070
Total	<u>\$ 82,848</u>	<u>\$ 10,394</u>	<u>\$ 72,454</u>	<u>\$ 73,670</u>

### FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- A change in the state laws which would impact Schools of Choice.
- Student enrollment is uncertain.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Treasurer's office at 3253 E. Strange Hwy., Grand Ledge, MI 48837 517-627-8611

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 279,773
Due from other governmental units	<u>14,647</u>
<b>TOTAL CURRENT ASSETS</b>	<u>294,420</u>
<b>NONCURRENT ASSETS:</b>	
Capital assets	82,848
Less accumulated depreciation	<u>(10,394)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>72,454</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 366,874</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES:</b>	
Noncurrent liabilities:	
Compensated absences	<u>\$ 11,754</u>
<b>NET ASSETS:</b>	
Invested in capital assets	72,454
Unrestricted	<u>282,666</u>
<b>TOTAL NET ASSETS</b>	<u>355,120</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 366,874</u></u>

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 116,643	\$ 1,500	\$	\$ (115,143)
Support services	30,629			(30,629)
Unallocated depreciation	3,849			(3,849)
Total governmental activities	<u>\$ 151,121</u>	<u>\$ 1,500</u>	<u>\$</u>	<u>(149,621)</u>
General revenues:				
Property taxes, levied for general purposes				69,751
Investment earnings				9,498
State sources				<u>80,521</u>
Total general revenues				<u>159,770</u>
<b>CHANGE IN NET ASSETS</b>				10,149
<b>NET ASSETS, beginning of year</b>				<u>344,971</u>
<b>NET ASSETS, end of year</b>				<u><u>\$ 355,120</u></u>

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2006**

	<u><b>General fund</b></u>
<b>ASSETS</b>	
<b>ASSETS:</b>	
Cash	\$ 279,773
Due from other governmental units	<u>14,647</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 294,420</u></u>
<b>FUND BALANCE</b>	
<b>FUND BALANCE:</b>	
Unreserved, undesignated	<u><u>\$ 294,420</u></u>
 <b>Total governmental fund balances</b>	 \$ 294,420
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of capital assets is	\$ 82,848
Accumulated depreciation is	<u>(10,394)</u>
	72,454
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Termination benefits - compensated absences	<u>(11,754)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 355,120</u></u>

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>General fund</b>
<b>REVENUES:</b>	
Local sources:	
Property taxes	\$ 69,751
Investment income	9,498
Other local revenue	1,500
	<u>80,749</u>
State sources	<u>80,521</u>
Total revenues	<u>161,270</u>
<b>EXPENDITURES:</b>	
Current:	
Instruction:	
Basic instruction:	
Salaries	72,598
Employee benefits	32,181
Supplies and other	8,532
Added needs	3,276
General administration	15,977
Operations and maintenance	10,860
Capital outlay	6,425
	<u>149,849</u>
Total expenditures	<u>149,849</u>
<b>NET CHANGE IN FUND BALANCE</b>	11,421
<b>FUND BALANCE, beginning of year</b>	<u>282,999</u>
<b>FUND BALANCE, end of year</b>	<u><u>\$ 294,420</u></u>

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

<b>Net change in fund balance total governmental fund</b>	<b>\$ 11,421</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(3,849)
Capital outlay	2,633

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued termination benefits, beginning of the year	11,698
Accrued termination benefits, end of the year	<u>(11,754)</u>

<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 10,149</u></u></b>
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# **ONEIDA TOWNSHIP SCHOOL DISTRICT #3** **NOTES TO FINANCIAL STATEMENTS**

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Oneida Township School District #3 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

### **A. Reporting Entity**

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America (GAAP). In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statements No. 14 and No. 39.

Based upon the application of these criteria, the basic financial statements of Oneida Township School District #3 contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the District nor is the District a component unit of another entity.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as governmental type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (state revenue, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, intergovernmental revenue, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**Governmental Funds** – Governmental funds are those funds through which most District functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's operating fund. It accounts for all financial resources of the District.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the school district's based on information supplied by the District. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposit accounts.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	18.0000
General Fund - Homestead	6.1474

3. Receivables

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

4. Capital Assets (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Computer equipment and software	5 years
Furniture and fixtures	20 years
Land improvements	15 years
Buildings	50 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

5. Unemployment Insurance

The District reimburses the State for the actual amount of unemployment benefits disbursed by the State on behalf of the District. Billings received for amounts paid by the State through June 30 are accrued.

6. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Board considers a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Any expenditures in violation of the budgeting act are noted in the required supplementary information section.
4. The School Board is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2006, the District had no investments.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006 \$141,307 of the District's bank balance of \$291,593 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance June 30, 2005	Additions	Reclassification/ deletions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 20	\$	\$	\$ 20
Capital assets, being depreciated:				
Computer equipment	7,903	2,633		10,536
Furniture and fixtures	2,072			2,072
Land improvements	6,471			6,471
Outdoor equipment	21,773			21,773
Buildings	41,976			41,976
Total capital assets being depreciated	80,195	2,633		82,828
Accumulated depreciation:				
Computer equipment	2,277	1,691		3,968
Furniture and fixtures	238	93		331
Land improvements	667	388		1,055
Outdoor equipment	163	980		1,143
Buildings	3,200	697		3,897
Total accumulated depreciation	6,545	3,849		10,394
Net capital assets	\$ 73,670	\$ (1,216)	\$	\$ 72,454

Depreciation for the fiscal year ended June 30, 2006 amounted to \$3,849. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)**

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006, was 14.87% of payroll through September 30, 2005 and increased to 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$10,081, \$7,802 and \$6,929, respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**NOTE 6 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District continues to carry commercial insurance for risks of loss, workers' compensation and employee health and accident insurance.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**ONEIDA TOWNSHIP SCHOOL DISTRICT #3**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget - positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 73,500	\$ 73,500	\$ 80,749	\$ 7,249
State sources	67,000	75,000	80,521	5,521
Total revenues	140,500	148,500	161,270	12,770
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	109,000	129,477	113,311	16,166
Added needs	3,600	3,600	3,276	324
Total instruction	112,600	133,077	116,587	16,490
Support services:				
General administration	18,800	19,777	15,977	3,800
Operation and maintenance	9,100	13,360	17,285	(3,925)
Total support services	27,900	33,137	33,262	(125)
Total expenditures	140,500	166,214	149,849	16,365
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$</b>	<b>\$ (17,714)</b>	11,421	<b>\$ 29,135</b>
<b>FUND BALANCE:</b>				
Beginning of year			282,999	
End of year			\$ 294,420	



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Oneida Township School District #3  
Grand Ledge, Michigan

November 29, 2006

We have audited the financial statements of the governmental activities and the major fund, of Oneida Township School District #3 as of and for the year ended June 30, 2006, which collectively comprise the Oneida Township School District #3's basic financial statements and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oneida Township School District #3's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oneida Township School District #3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Education, management and Michigan Department of Education is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costurison & Ellis, P.C.*

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Certified Public Accountants



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
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November 29, 2006

To the Board of Education  
Oneida Township School District #3  
Grand Ledge, Michigan

In planning and performing our audit of the financial statements of Oneida Township School District #3 for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated November 29, 2006, on the financial statements of Oneida Township School District #3.

### **CURRENT YEAR COMMENTS**

#### **Bank Reconciliations**

It was noted during the course of the audit that bank reconciliations were not being performed on a monthly basis. Bank reconciliations should be performed, at a minimum, on a monthly basis to ensure all cash is accounted for as well as all transactions recorded. The bank reconciliations will help to eliminate errors in all accounts as well as assist with cash flow. Also, the bank statements should be received directly by the President and the completed reconciliations should be reviewed by the President.

Check Register

A check register should be prepared every time checks are printed. A log should be kept of the check numbers used each time as they are used, and this log should be reviewed for accuracy and proper sequence each time checks are written.

In addition, this check register should be presented to the Board on a monthly basis for approval.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget, and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act, we believe the District's current budget procedures are adequate.

#### New Auditing Standards

Recently, ten new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

To the Board of Education  
Oneida Township School District #3  
Grand Ledge, Michigan

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November 29, 2006

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies: "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with accounting principles generally accepted in the United States of America. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Oneida Township School District #3, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costeison & Ellis, P.C.*